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C O N F I D E N T I A L SECTION 01 OF 03 SHANGHAI 000435

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TAGS: [PGOV](#) [ECON](#) [EFIN](#) [CH](#)  
SUBJECT: SHANGHAI CONTACT ON THIRD PLENUM

REF: A. (A) BEIJING 3788  
[1](#)B. (B) CPF20081006554002  
[1](#)C. (C) SHANGHAI 384  
[1](#)D. (D) SHANGHAI 427  
[1](#)E. (E) SHANGHAI 429  
[1](#)F. (F) SHANGHAI 396

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CLASSIFIED BY: Matthew Murray, Acting POL/ECON Chief, US  
Consulate General Shanghai, Department of State.  
REASON: 1.4 (b), (d)

[1](#)1. (C) Summary: One day prior to the opening of the Third Plenum of the 17th Communist Party of China (CPC) Central Committee, a well-connected Shanghai contact said CPC leaders believe the "time is now" to quicken the pace of rural reform; however, any land reforms introduced during the Plenum will have virtually no impact on China's rural economy in the short-term. The Plenum's focus on rural issues indicates the leadership's growing concern about the adverse impacts of China's slowing economy on social stability, the contact said, adding that in the current economic situation, disgruntled rural-to-urban migrants also may pose a threat to social stability. Shanghai's status as China's financial center obviously is the area of greatest local interest, and the contact said he expects the Plenum to "reassure Shanghai" that it would remain the center of China's financial reforms. He echoed the conventional wisdom that there would be few personnel changes related to the Plenum, but there remains speculation that People's Bank of China (PBOC) Chairman Zhou Xiaochuan may be asked to step down. End Summary.

Time is Now for Rural Reform

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[1](#)2. (C) Frank Peng, a well-connected contact who previously was an advisor to then-Premier Zhu Rongji and who currently is the Director of Tongji University's World Bank Studies Center, said on October 8 that he is not surprised the Third Plenum of the 17th CPC Central Committee would focus on rural reform (Refs A and B). With China's economy slowing, the Central Government is growing more concerned about low domestic consumption in the countryside, Peng said, leading the leadership to believe the

"time is now" for quickening the pace of rural reform.

13. (C) Peng agreed with media reports that discussion on rural reform at the Plenum would concentrate on land reform. Referring to an October 7 article in the South China Morning Post (SCMP), he said it is obvious that Chinese farmers need more freedom to pool their land resources and achieve economies of scale, and the Central Government continues to search for the best way to do so that will be acceptable to farmers. Offering farmers greater freedom to transfer their land use rights would be one possible positive outcome of the Plenum, but it will not have very much impact on the rural economy in the short-term. Ultimately, Peng said, comprehensive rural reform would require privatizing land in the countryside just as land has been privatized in urban areas, and any progress at the Plenum should be viewed not as a final answer but as merely one step in that process.

14. (C) Comment: In our conversations with East China contacts, all have been quick to note the importance of rural reform; however, the complete lack of attention on the Plenum by Shanghai-based media suggests it does not resonate here. Peng discussed articles in the Hong Kong-based SCMP and Beijing-based People's Daily (Renmin Ribao), but a review of local press articles has revealed a notable absence of Plenum-related reporting. Contacts also have told Congenoffs that the Shanghai media is too preoccupied with the global financial crisis to focus on CPC politics. End Comment.

Eye on Social Stability

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15. (C) The Plenum's focus on rural issues also is an indication that the Central Government is increasingly concerned about the adverse impacts of China's slowing economy on social stability (Ref C). Peng noted that Consumer Product Index (CPI) inflation has decreased in recent months, but the corresponding slowdown in GDP growth has alarmed CPC leaders. In economic terms, if China's exports and inbound investment are on a downward trajectory, then domestic consumption will need to increase in order to maintain stability, Peng said. (Note: The same sentiment was expressed by Wang Xinkui, Director of the WTO Center in Shanghai, during a meeting with the Consul General on October 9. Septel to follow. EndNote.) Low agricultural productivity because of inefficient land usage, however, prevents farmers from achieving agricultural gains, which potentially could lead to greater economic and social pressures in the countryside. The Central Government therefore needs to address the issue immediately, he said, and Chairman Hu Jintao's recent trip to Xiaogang in Anhui Province to commemorate the 30th anniversary of the household contract system reforms is evidence of the leadership's seriousness.

16. (C) Another potential source of social instability that is worrying CPC leaders is rural-to-urban migrants. Peng said the Plenum Communique probably would mention migrants and perhaps offer policy prescriptions to lessen migrants' social welfare burden. The hukou registration system is all but obsolete, as cities such as Shanghai allow migrants to benefit from education, health care, and even pensions, but the Central Government feels pressured to make it easier for migrants lest it be faced with another threat to stability, stated Peng. In addition, with an eye on the global financial crisis and the closure in East China of many factories that produce low-end consumer products, the Central Government may need to further

address migrants' concerns, Peng said. There should be more attention paid to the possible impact on social stability if migrants -- who may contribute more than half of the income in a village through remittances -- lose their jobs and have to return to the countryside, he added.

17. (C) Peng downplayed concerns that the recent dairy scandal would lead to social instability (Ref D). Central Government and Shanghai Municipal leaders are paying close attention to food and product safety, however, because they now fully understand the dangers posed by tainted food and other defective products, stated Peng.

#### Plenum to Reassure Shanghai on Financial Center Plan

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18. (C) On the economic and financial front, Peng said the Plenum "would reassure Shanghai" that it will be China's financial center (Refs E and F). The idea that Tianjin or another city might be competing with Shanghai to be China's financial center is "absolutely ridiculous," Peng said, and the Plenum would make clear that Shanghai is the only city under consideration. That said, Peng stated that he believes no city on China's mainland, including Shanghai, is well-positioned to be a regional financial center. Still, Shanghai certainly is better situated than Tianjin, which Peng criticized as being a creation of former PBOC Chairman Dai Xianlong but that lacks substance and is incapable of attracting international financial firms. Locating China's financial center in Shanghai was the plan of former leader Deng Xiaoping, and the Central Government should support the "great man's vision," Peng said.

#### Personnel Moves at the Plenum

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19. (C) Peng said the Plenum will be relatively quiet from a personnel standpoint but argued that he would not be surprised to see current PBOC Chairman Zhou Xiaochuan forced out of his post (see also Ref A). Peng argued that Zhou is not qualified to be in charge of the Central Bank, especially during a period of global financial turmoil. He would prefer to see China Banking and Regulatory Commission (CBRC) Chairman Liu Mingkang in the position, particularly because he speaks English, which would be an asset in the eyes of foreign financial institutions.

#### Comment

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110. (C) From East China's perspective, the two areas of greatest interest at the Third Plenum are plans to name Shanghai as China's financial center and the impact of rural reforms in Anhui Province. Despite the relative absence of media coverage on the eve of the Plenum, we expect that local officials and the media will focus their attention on the Plenum Communique when it is released at the conclusion of the meeting, particularly if the Communique highlights financial reforms in Shanghai.